FDIC State Profile

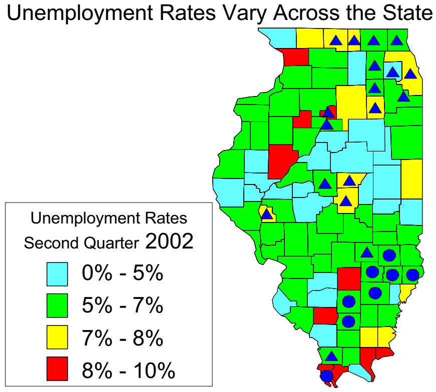
WINTER 2002

Illinois

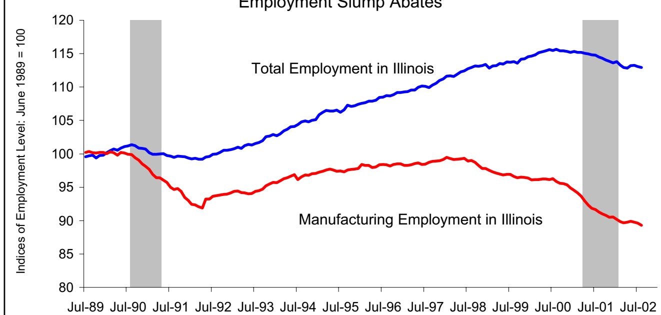
Recovery from the 2001 recession is under way even as the state's economy remains below pre-recession levels of employment and manufacturing activity.

- Labor market indicators are a proxy for overall economic activity in the state. Since April, Illinois' unemployment rate has hovered around 6.3 percent, ending its rise from 4.2 percent in the first half of 2000.
- The map illustrates how developments vary among counties, often reflecting whether or not they have high exposure to industries that are sensitive to business cycles. Counties where rising unemployment rates matched or exceeded the state's increase of 100 basis points over the past year (between second quarters of 2001 and 2002) are marked with triangles on the map, while those where the rate fell by an equal amount are marked with circles.
- In the aggregate, job layoffs have abated and total employment in Illinois stopped falling in recent months (see middle chart). This development is encouraging, even though the level of employment remains more than 2 percent (or 137,000 jobs) lower than its peak in 2000.
- In the past two years, 45 percent of the state's job losses were concentrated among producers of industrial machinery and equipment, fabricated steel products, primary metals, and nondurable goods. Substantial declines also occurred among business-service firms and wholesalers, partly driven by the slump in manufacturing activity.
- The year-to-date improvement in the Midwest Manufacturing Index (lower chart) suggests that Illinois is participating in the national economic recovery. The August dip in the index was heavily influenced by the auto sector, which may post only moderate gains in coming months, given that the industry is currently operating at a fairly high utilization rate.
- The recession and its aftermath generated weakening demand and rising vacancy rates for office, industrial, retail, and lodging properties in Chicago (and elsewhere). It may take some time for existing space to be absorbed, even with the cyclical recovery.
- For the state as a whole, home sales remain high and price appreciation is continuing, although a few submarkets are reporting weakness.
- The state and national economies in early October appeared to be on track for continuing expansion, but the recovery is vulnerable to shocks that could arise at home or abroad.

Unemployment Rates Vary Across the State

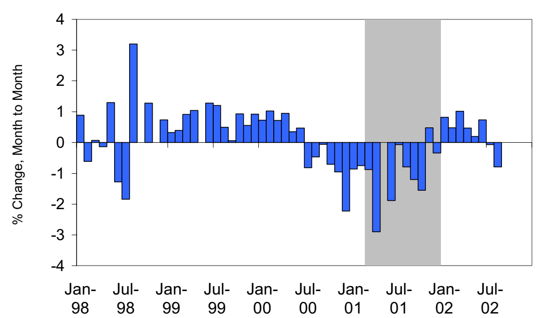


Total Employment in Illinois Stabilizes while Manufacturing Employment Slump Abates



Source: Bureau of Labor Statistics. Shaded bars = recessions.

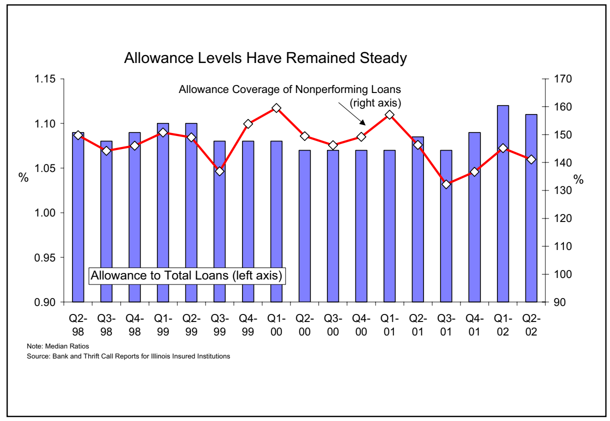
Midwest Manufacturing Index in 2002: More Gains than Declines

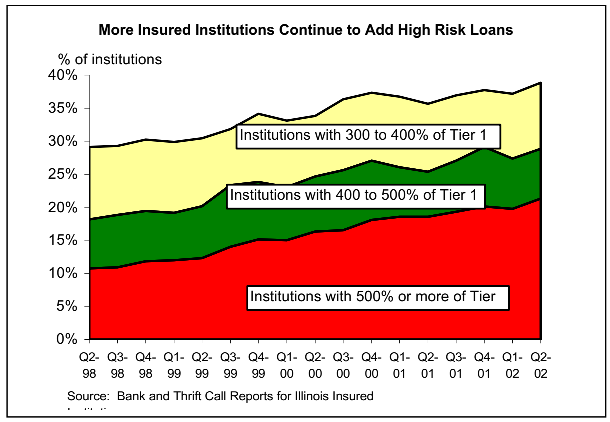


Source: Federal Reserve Bank of Chicago

Overall banking conditions among insured institutions in Illinois are generally satisfactory, although asset quality may demand further attention as the state recovers from the economic downturn.

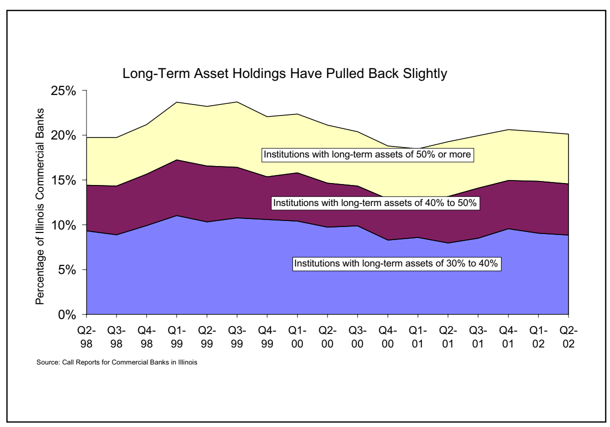
- Profitability appears to be holding up well, with a median annualized return on assets of 1.02 percent through the second quarter of 2002, up from 0.89 percent one year ago. Profitability gains have been driven by improvement in net interest margins, which rebounded strongly during the past year.
- Asset quality is generally healthy. Although net loan losses rose slightly, median past-due and nonaccrual loans dropped to 1.96 percent of total loans in the second quarter of 2002 from 2.07 percent one year ago.
- Although slightly down from the previous quarter (see upper chart), coverage of nonperforming loans was comparable to one year ago while the median allowance for loans and lease losses as a share of total loans rose slightly to 1.11 percent in the second quarter of 2002 from one year ago.
- The number of insured institutions in Illinois with high-risk loan exposure has increased over the past several years (see high-risk loan chart).[1] Of particular note is the increase in the number of institutions with at least a 500 percent capital concentration (21.3 percent of all institutions as of June 30, 2002, up from 18.6 percent and 16.3 percent one year and two years ago, respectively). Such institutions may be more vulnerable to economic shocks than those with lower levels of higher-risk loans.





Interest rate risk management is likely to be important for liability-sensitive institutions.

- Although the current yield curve is very steep, higher short-term rates could cause it to flatten and affect margins at liability-sensitive institutions. The potential for continuing interest rate volatility suggests that sound asset/liability management policies and practices will be particularly critical to future earning performance among insured institutions in Illinois.
- The share of insured institutions in Illinois with higher percentages of long-term[2] assets has pulled back during the last several years (see bottom chart). Although some institutions have sought longer-duration assets to take advantage of the steep yield curve, refinancing activity has contributed to a reduction in institutions with high percentages of long-term assets.



[1] High-risk loans include construction and development loans, commercial real estate loans and commercial and industrial loans.

[2] Long-term assets are those with earliest repricing or maturity greater than five years.

Illinois at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	798	819	839	854	899	933
Total Assets (in thousands)	503,042,238	443,949,474	392,526,492	351,048,758	326,028,574	317,038,505
New Institutions (# < 3 years)	31	43	41	27	28	28
New Institutions (# < 9 years)	79	84	80	67	59	57
Capital						
Tier 1 Leverage (median)	9.04	9.08	9.37	9.30	9.43	9.37
Asset Quality						
Past-Due and Nonaccrual (median %)	1.96%	2.07%	1.75%	1.89%	2.02%	2.05%
Past-Due and Nonaccrual ≥ 5%	104	104	76	99	107	101
ALLL/Total Loans (median %)	1.11%	1.09%	1.07%	1.10%	1.09%	1.10%
ALLL/Noncurrent Loans (median multiple)	1.41	1.46	1.49	1.49	1.50	1.57
Net Loan Losses/Loans (aggregate)	0.86%	0.79%	0.34%	0.30%	0.29%	0.32%
Earnings						
Unprofitable Institutions (#)	36	72	64	45	27	31
Percent Unprofitable	4.51%	8.79%	7.63%	5.27%	3.00%	3.32%
Return on Assets (median %)	1.02	0.89	0.99	0.96	1.06	1.10
25th Percentile	0.68	0.55	0.65	0.64	0.71	0.80
Net Interest Margin (median %)	3.82%	3.59%	3.85%	3.76%	3.92%	4.01%
Yield on Earning Assets (median)	6.53%	7.64%	7.67%	7.34%	7.75%	7.77%
Cost of Funding Earning Assets (median)	2.73%	4.07%	3.87%	3.64%	3.90%	3.82%
Provisions to Avg. Assets (median)	0.12%	0.10%	0.09%	0.09%	0.08%	0.07%
Noninterest Income to Avg. Assets (median)	0.50%	0.51%	0.46%	0.47%	0.49%	0.46%
Overhead to Avg. Assets (median)	2.59%	2.63%	2.62%	2.60%	2.60%	2.56%
Liquidity/Sensitivity						
Loans to Deposits (median %)	72.61%	72.36%	72.41%	69.07%	69.04%	67.92%
Loans to Assets (median %)	61.61%	61.96%	61.35%	59.04%	59.05%	58.17%
Brokered Deposits (# of Institutions)	148	125	102	98	96	102
Bro. Deps./Assets (median for above inst.)	4.05%	3.76%	3.44%	2.63%	2.35%	1.69%
Noncore Funding to Assets (median)	15.38%	15.52%	14.98%	13.00%	12.67%	11.81%
Core Funding to Assets (median)	72.84%	72.92%	73.91%	75.79%	75.70%	76.68%
Bank Class						
State Nonmember	433	446	457	451	477	503
National	177	187	200	213	227	230
State Member	76	70	64	68	68	68
S&L	28	29	31	32	34	37
Savings Bank	34	37	36	37	39	38
Mutually Insured	50	50	51	53	54	57

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	359	29,910,792	44.99%	5.95%
Chicago IL PMSA	284	435,054,389	35.59%	86.48%
St Louis MO-IL	33	4,681,347	4.14%	0.93%
Peoria-Pekin IL	25	3,802,039	3.13%	0.76%
Springfield IL	18	7,718,060	2.26%	1.53%
Rockford IL	17	8,725,111	2.13%	1.73%
Champaign-Urbana IL	16	3,659,521	2.01%	0.73%
Davenport-Moline-Rock Island IA-IL	15	1,895,149	1.88%	0.38%
Decatur IL	11	1,798,355	1.38%	0.36%
Kankakee IL PMSA	10	1,536,625	1.25%	0.31%
Bloomington-Normal IL	10	4,260,850	1.25%	0.85%